

Water & Sewer Commissioners Meeting with City of Nashua
January 5, 2011

Attendance:

Mayor Donnalee Lozeau, Mayor City of Nashua
John Patenaude, City of Nashua
Robert E. Courage, Chairman Water & Sewer Commission
Michael E. Putnam, Vice-Chairman Water & Sewer
Commission, BOS Member
Dale A White, Member, Water & Sewer Commission
Tim Finan, Chairman Board of Selectman
Katherine Bauer, Member BOS
Nate Carmen, Member BOS
David Boucher, Superintendant, Water Utilities
Jodie Gaffney, Recording Secretary

Proposed Acquisition of Pennichuck Corporation

Call to Order: Chairman Robert E. Courage, opens meeting at 5:00pm.

Discussions: Robert E. Courage begins by stating that the Town of Milford has an interest in the take over of Pennichuck by the City of Nashua because the Town is presently in a 20 year contract with Pennichuck (renewed in 2002). Robert E. Courage asks, How will this affect us, and all of our customers ?

Mayor Lozeau introduced herself, and stated that she was going to explain what the acquisition means, determining the negotiated settlement, starting with how it looks today and the acquisition on the table. Mayor Lozeau's presentation began with Facts about Milford.

- Milford customers including the town are provided water by Pennichuck Water Works, Inc.
- There are approximately 260 customers in Milford.
- There are approximately 33,700 customers in all three regulated utilities.

What is the Purpose of this acquisition ?

- To secure and protect water supplies and watershed lands for customers serviced by Pennichuck.
- To continue to provide highest quality water and water services.
- To stabilize water rates at reasonable levels.

What is being acquired:

Pennichuck Corporation and included subsidiaries: Pennichuck Water Works Inc., Pennichuck East Utility, Inc., Pittsfield Aqueduct Co. Inc, Pennichuck Water Service Corp., and The Southwood Corporation.

What is the Cost excluding transaction expenses?

- \$29.00 per share or \$138 million to acquire all of the shares of Pennichuck Corporation
- Assume Current debt of about \$60 million
- Total purchase price of \$198 million

After the acquisition:

- Pennichuck Corporation and its subsidiaries will continue to exist as separate legal entities
- The three water utility companies will continue to be regulated by the New Hampshire Public Utilities Commission.
- All operating employees will remain with the company.
- All contractual obligations of Pennichuck and its subsidiaries will be honored.

What will change?

- Pennichuck Corporation will no longer be a publicly held company
- Corporate management, which is mostly responsible for publicly traded company matters, will be reduced
- Other costs required to be a publicly owned company will be eliminated

Compare to Eminent Domain:

City issues Revenue Bonds up to \$243M to cover Purchase Price and Mitigation fund, City buys assets of Pennichuck Water Works for \$203M; City must retain 3rd Party Operator to operate utility; utility now a municipal utility not subject to NHPUC regulation.

Will future rates be lower under City ownership?

Future rates depend on a number of important factors:

- water rates in effect when the transaction closes
- the long term rate of inflation
- capital investment plans
- debt interest costs, etc.

We have made reasonable assumptions about all of these factors:

- the PUC approves the current rate request from the Pennichuck utilities,
- 3% long term rate of inflation
- \$ 7.7 million of capital investment per year,
- 6.5 % interest rate on debt issued by the City.

Mayor Lozeau noted that future rates do increase because cost of business increases, but the level is less under city ownership, as under current ownership.

How will the company be run ?

- Independent Board of Directors will be comprised of between 7 and 13 members.
- At least 5 members will be residents of Nashua, but Board must have non-Nashua membership from other communities.
- After the first Board, all members will be nominated by PNNW Board and elected by City acting in shareholder capacity
- Elected officials and key public employees, and their family members, may not serve – Exception for the Nashua Mayor for the first 2 years to ensure continuity of purposes

Mayor Lozeau also noted that she would be looking for people (for the Board) with a Corporate background and who know how to run a water company, resumes can be sent directly to her office.

How will the transaction be financed?

- The City will need to raise about \$150 million to pay for the shares and associated transaction costs, and to create a rate stabilization fund
- The city may raise an additional \$5 million to refinance some existing debt
- The current plan is for Nashua to issue 30-year taxable general obligation debt
- Pennichuck revenues will cover all debt service costs

What happens next?

- Following public discussions, the Board of Alderman will decide whether or not to authorize issuing bonds
- If we proceed, the transaction must be approved by the New Hampshire Public Utilities Commission
- 2/3 of Pennichuck shareholders must vote in favor of the transaction
- Finally, the City must be able to obtain financing at reasonable rates

Mayor Lozeau asked if there were any questions from the audience?

Chairman Bob Courage asked if in addition to the contract that Milford has to purchase water from Pennichuck, would they be interested in servicing systems above U.S.G.S. elevation 390? The Town agreed to franchise these areas to Pennichuck, will the City of Nashua be interested in still honoring that franchise agreement of area above elevation 390?

John Patenaude from the City of Nashua replied to that question as seeing no changes with community, they want to continue doing business with customers.

Bob Courage asked if they would be interested in servicing a future project above elevation of 390, and John Patenaude replied that "as long as it was cash flow positive".

Dale White said that Municipalities are not supposed to work under making a profit scenario, how does the city intend to run a non-profit but for cash flow positive business?

Mayor Lozeau replied that for the City it is their goal to run it as cash positive to run the company, Pennichuck. Moving forward, to keep costs in a manner that treat customers well, not turning a profit. John Patenaude added that would be covering operating expenses of the business and service cost for the City.

Dale White asked if there was a profit, what would happen to it?
Mayor Lozeau stated that would be up to the Board.

Selectman Michael Putnam asked when do they anticipate the switch over?
Mayor Lozeau and John Patenaude responded 12-18 months from now, the 4th quarter of 2011.

Selectman Putnam asked in regards to the Board Director, could that potentially be someone from Milford?

Mayor Lozeau responded that if you have someone in mind who is qualified, have them send their resume to my office.
Meetings will be public, we will have different opportunities to weigh in, and are still keeping the same employees (of Pennichuck) in place.

Bob Courage noted that the way they describe wanting to run the company is similar to ours (Milford Water & Wastewater).

Mayor Lozeau thanked the Chairmen for their time, and the Commissioners expressed that they felt the presentation was very good.

The meeting adjourned at approximately 5:30pm.

Robert E. Courage, Chairman

Michael E. Putnam, Vice-Chairman

Dale A. White, Commissioner